



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Edelen Releases Audit of Grant County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Grant County Fiscal Court for the fiscal year ended June 30, 2011. State law requires annual audits of county fiscal courts.

The audit found accounting records for the Jail Canteen Fund were not accurate and complete. As a result, the audit disclaims an opinion on the County's financial statements for its business-type activities and Jail Canteen Fund.

The audit also found that the county's remaining financial statements, in all material respects, fairly present the county's assets, liabilities, and net assets arising from cash transactions and revenues received and expenditures paid in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The Jailer should ensure that adequate documentation supporting the amount, account, classification, and compliance with KRS 441.135 of each expenditure in the jail canteen fund is maintained. During our audit of the Jail Canteen Fund, our testing indicated that for 54 (\$15,411) of 148 (\$208,648) expenditures selected for testing, there was no documentation evidencing the amount, account, classification or that the expenditure was allowable in compliance with KRS 441.135. We recommend the Jailer implement procedures for processing, approving, and maintaining adequate documentation supporting the amount, account, classification, and compliance with KRS 441.135 for each expenditure in the Jail Canteen Fund.

Jailer Terry Peeples' response: We confirm. We were not able to locate records for the time period prior to January, 2011.

The Jailer should ensure that adequate controls are designed and implemented over expenditures in the jail canteen fund. During our audit of the Jail Canteen Fund, our testing indicated following instances where internal controls were not effectively designed and implemented or not in place:

- For 1 (\$653) of 148 (\$208,648) expenditures selected for testing, the individual who authorized the purchase also signed the check approving payment of the invoice.

Jailer Terry Peeples' response: We confirm. Since speaking with the Auditor, we now have a requisition process in place that requires the Jailer to sign off on all purchases.

- For 1 (\$4,197) of the 148 (\$208,648) expenditures selected for testing, documentation supporting the transfer of funds for payroll costs related to the Jail Canteen Fund was not attached to the supporting documentation. At our request, the documentation supporting the amount, account, and classification was provided.

Jailer Terry Peeples' response: We obtained a copy of the missing documentation and gave it to the Auditor.

- For 16 (\$2,990) of 148 (\$208,648) expenditures selected for testing, there was no evidence supporting that the purchases had been approved.

Jailer Terry Peeples' response: Since speaking with the Auditor, we now have a Requisition Process in place that requires the Jailer to sign off on all purchases.

- For 1 (\$7,856) of 148 (\$208,648) expenditures selected for testing, the check was signed by only one authorized signor when 2 signatures are required.

Jailer Terry Peeples' response: We spoke with our Bank. They are very aware of the requirement for the two signatures.

- For 1 (\$2,605) of 148 (\$208,648) expenditures selected for testing, payment was issued without a signature.

Jailer Terry Peeples' response: We spoke with our Bank. They are very aware of the requirement for the authorized signatures.

- For all 11 debit card purchases (\$1,782) of the 148 (\$208,648) expenditures selected for testing, there is no evidence that the purchases were approved by an authorized individual after the purchase was made (the Jailer approves the use of debit card prior to purchase but does not review and approve returned receipts).

Jailer Terry Peeples' response: We are going to eliminate the use of debit cards. In the meantime, a Requisition Form is required for all purchases.

- Our testing indicated that payments were made for purchases of inventory and merchandise based on vendor invoices and not accompanied by supporting documentation indicating that the items purchased had been received (i.e. lack of a signature by the person responsible for receiving or checking in the merchandise).

Jailer Terry Peeples' response: Mr. Peeples verbally approved all expenditures, but the written approval was lacking. We have implemented the Requisition Form.

We recommend the Jailer improve controls over the processing and approving of transactions in the Jail Canteen Fund. Good internal control procedures over cash would dictate a more defined separation of duties than now exists. Such controls might include, but not be limited to, the following:

- Separating the duties of reconciling the bank accounts and the employee responsible for cash receipts and disbursements duties.
- A responsible official should review all checks and initial the related source documents before checks are mailed.
- Bank statements, canceled checks, and appropriate advices should be received by someone other than employees maintaining cash records. Such items could be periodically reviewed prior to turning them over for reconciliation. Unusual items noted during the review should be investigated promptly.

The Jailer should ensure that all expenditures from the jail canteen fund are in compliance with KRS 441.135. During our audit of the Jail Canteen Fund, our testing indicated that for 1 (\$750) of 148 (\$208,648) expenditures selected for testing, GCDC employees were unable to demonstrate sufficient for the auditors how the related expenditure complies with KRS 441.135. KRS 441.135 requires that all profits from the Jail Canteen Fund be used for the benefit and to enhance the well-being of the prisoners and states that allowable expenditures from the Jail Canteen Fund shall include but not be limited to recreational, vocational, and medical purposes. We recommend the Jailer implement procedures to review all expenditures prior to being authorized for compliance with KRS 441.135.

Jailer Terry Peeples' response: We confirm. This payment was made prior to January 2011. The expenditure was not renewed for 2012

The Jailer should ensure that accounting data supporting the transactions in the jail canteen fund and inmate fund are backed up to the county's servers and that backups are tested periodically. During our audit of the Jail Canteen Fund, we noted that the Grant County Detention Center (GCDC) uses Quickbooks for recording transactions in the Jail Canteen and Inmate Funds. The Quickbooks file prior to 1/1/2011 was lost or destroyed. The data was maintained on a local hard drive without being backed up to the County's servers and the GCDC lacked procedures for disaster recovery of its data files. We recommend the County and Jailer develop, document, and implement a disaster recovery policy which includes requiring periodic

backups of the Quickbooks data files to be stored offsite and periodically tested to ensure recoverability in the event of a disaster.

Jailer Terry Peeples' response: We confirm. The accounting computer has been forwarded to an outside law enforcement agency for forensic investigation.

The Jailer should provide receipts for all payments received in the canteen and inmate funds in compliance with KRS 64.840. During our audit of the Jail Canteen Fund, our testing indicated that GCDC personnel do not issue receipts for all amounts received in the office (This is primarily because money orders are required to be dropped in a drop box rather than given to an individual, therefore they are not recorded when received, and a receipt is not provided to the person delivering the money order in person). Per KRS 64.840, all county officials are required to prepare a receipt that meets the specifications of the state local finance officer if the payment is paid by cash or by a party appearing in person to pay. We recommend that the current practices be reviewed and if necessary changes be made to ensure compliance with KRS 64.840.

Jailer Terry Peeples' response: We confirm. We have changed the money order process. All money orders are mailed directly to Telmate.

The Jailer should ensure that a cash reconciliation that reconciles from the bank balance to the general ledger balances be prepared to determine that all cash transactions have been recorded properly and to discover bank errors for the canteen and inmate fund bank accounts each month. During our audit of the Jail Canteen Fund, our testing indicated that bank balances are not being reconciled to the general ledger balances. A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared to determine that all cash transactions have been recorded properly and to discover bank errors. We recommend the GCDC develop and implement a policies and procedures to ensure that all bank accounts are reconciled to the general ledger in a timely manner and reviewed by someone other than the prepare of the reconciliation.

Jailer Terry Peeples' response: We confirm. The Inmate Trust Account had uncleared checks stored in a file that dated back to 2009, making it very difficult to complete without electronic records. Moving forward the accounts will be reconciled to Quickbooks.

The Jailer should ensure that all time sheets supporting employee time records are maintained. During our audit of the Jail Canteen Fund, our testing indicated that for 2 of 15 employees selected for a single pay period tested the GCDC could not locate the employees' timesheet. Per the Grant County Personnel Policies, all non-exempt employees are required to keep accurate record of time worked in order to calculate employee pay and benefits. We recommend the Jailer establish record keeping procedures whereby timesheets supporting its payroll expenses are maintained in accordance with the County's personnel policies.

Jailer Terry Peeples' response: We confirm. The timecards are locked up in the Accounting Office.

The County should ensure that the treasurer receives an annual report from the jailer of the receipts and disbursements of the jail canteen fund in accordance with KRS 441.135(2). During our audit of the Jail Canteen Fund, our testing indicated that an annual report of the receipts and expenditures of the Jail Canteen Fund had not been provided to the County Treasurer by the Jailer on a timely basis and when initially prepared was not a complete report of receipts and disbursements for the period ended June 30, 2011. Per KRS 441.135(2), the jailer shall provide an annual report of the receipts and disbursements of the Jail Canteen Fund to the county treasurer. We recommend the Jailer submit an annual report of the receipts and disbursements of the Jail Canteen Fund to the County as required by KRS 441.135(2).

Jailer Terry Peebles' response: We confirm. We completed the Annual Canteen Report based on the records that we had at the time. We were waiting on the Auditor to direct us on how and what he needed us to do

The [audit report](#) can be found on the auditor's website.

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